



Business, Transportation and Housing Agency

**METAL PLATING FACILITY LOAN
GUARANTEE PROGRAM**

BIENNIAL REPORT

January 2009

State of California

Arnold Schwarzenegger, Governor

California Business, Transportation and Housing Agency

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Introduction

This document constitutes the California Business, Transportation and Housing (BTH) Agency's biennial report on the Metal Plating Facility Loan Guarantee Program (Loan Guarantee Program) required by California Public Resources Code Section 42105, and covers program activities during calendar years 2007 and 2008. The report is required by statute to contain the following information:

- The number and size of loan guarantees made.
- The statewide distribution of loan guarantee applicants.
- The level of program participation and performance of each of the state's Financial Development Corporations (FDCs).
- The characteristics of loan guarantee recipients.
- An evaluation prepared by the Department of Toxic Substances Control (DTSC) of its Metal Finishing Model Shop Program (Model Shop Program), including recommendations for its improvement and expansion, as well as coordination with existing enforcement activities.
- The amount of money spent on program administration.

Background

Assembly Bill 721, authored by Speaker Nunez and signed by Governor Schwarzenegger, directed BTH to establish a loan guarantee program to be administered through its FDC network to help small businesses engaged in metal plating purchase equipment that exceeds existing environmental regulations, as well as meets or exceeds new rules that are being developed. BTH was to collaborate with DTSC, the Air Resources Board (ARB), and the State Water Resources Control Board (SWRCB) in developing the program. AB 1721 became effective on January 1, 2006, and the program became operational in July of 2006 when funding was approved and program regulations were adopted. The program is scheduled to sunset on January 1, 2012, and is funded by funds transferred from the Hazardous Waste Reduction Loan Account to the Chrome Plating Pollution Prevention Fund. The Hazardous Waste Reduction Loan Account funded the now defunct Hazardous Waste Reduction Loan Program.

The loan guarantee program is intended to assist facilities in upgrading, replacing or purchasing high quality performance environmental control equipment or technologies that will enable the facility to comply with new, or exceed existing, regulatory requirements and implement additional pollution prevention measures. Guarantee requests are for financing to purchase and install

appropriate pollution control equipment, as approved by the local Air Quality Management District or Air Pollution Control District, DTSC, and the SWRCB.

As a loan guarantee program that works with private lenders, the purpose of the program is to provide access to capital to those companies who would otherwise not be able to obtain financing. Thus, while interest rates are typically at the market rate for commercial loans, businesses having difficulty acquiring financing on their own may now be able to acquire the capital needed to purchase and install pollution control equipment necessary for them to remain in operation.

Borrower Eligibility

Eligible applicants are small businesses as defined in section 14837(d) of the California Government Code that own or operate facilities engaged in metal plating, including chrome plating. Applicants must also satisfy one of the following conditions:

- ✓ Has completed or is currently participating in the state's Model Shop Program for metal platers.
- ✓ Has completed or is currently participating in the National Metal Finishing Strategic Goals Program.
- ✓ Is participating in a green business program whose goals are consistent with the pollution prevention and natural resource conservation elements of the Model Shop Program.
- ✓ Is certified as a green business whose goals are consistent with the pollution prevention and natural resource conservation elements of the Model Shop Program.

Funds must not be obtainable, upon reasonable terms, from financial companies or lending institutions without a loan guarantee, and the applicant must demonstrate that the facility upgrade meets new or exceeds existing regulatory requirements, or both, has no pending local, state, or federal enforcement or correction actions, and is participating in or has completed additional pollution prevention activities. In addition, applicants must be assigned an identification numbers as a hazardous waste generator. The applicant must be an existing, viable business with the ability to repay the loan and/or provide collateral.

Guarantee Information

Guarantees may be up to 90% of the loan amount, with a maximum guarantee amount of \$100,000 per borrower. The guarantee amount and terms are negotiated between the Financial Development Corporation guaranteeing the loan and the lender.

Loan Information

Interest rates are negotiated between the borrower and the lender. The length of the guarantee can be up to seven (7) years. The FDC may charge a guarantee fee of up to 2% of the guarantee amount, and a documentation fee of \$250.

Loan Guarantee Administration

AB 721 requires BTH to use its network of FDCs to administer the Loan Guarantee Program. As the overall administrator of the state's Small Business Loan Guarantee Program (SBLGP), BTH has established charter agreements with eleven FDCs. FDCs are nonprofit corporations

designated by BTH to: 1) market the SBLGP; 2) coordinate the packaging of the loan and loan guarantee applications between the small business and financial institution; 3) issue loan guarantees; and, 4) ensure that lenders have followed required procedures before requesting payment on defaulted loans. The FDCs fulfill the same role for the metal plating Loan Guarantee Program as they do for the SBLGP. Loan guarantees are backed by funds in the Chrome Plating Pollution Prevention Fund. That same fund provides funding for program administration.

The FDCs and their location are:

- 1) California Capital Small Business Development Corporation (Sacramento).
- 2) California Coastal Rural Development Corporation (Salinas).
- 3) California Southern Small Business Development Corporation (San Diego).
- 4) Hancock Small Business Financial Development Corporation (Los Angeles).
- 5) Inland Empire Financial Development Corporation (Ontario).
- 6) Nor-Cal Small Business Financial Development Corporation (Oakland).
- 7) Pacific Coast Regional Small Business Development Corporation (Los Angeles).
- 8) San Fernando Valley Small Business Financial Development Corporation (Pacoima).
- 9) Small Business Financial Development Corporation of Orange County (Santa Ana).
- 10) State Assistance Fund for Enterprise, Business, and Industrial Development Corporation (Santa Rosa).
- 11) Valley Small Business Development Corporation (Fresno).

Loan Guarantee Activity

To date, no formal requests for financial assistance have been received. However, this is not surprising given the timing of compliance. ARB's new regulation governing hexavalent chromium emissions was adopted in October of 2008, with the affected businesses needing to be in compliance by October 2009. Since the ARB regulation is the key regulatory change for those businesses engaged in chrome plating, demand for financing to purchase and install equipment is expected to be driven by the October 2009 deadline. It is anticipated that companies will start looking for assistance to retrofit their operations in early 2009, which would be consistent with previous experience with environmental financial assistance programs, particularly the Replacement of Underground Storage Tanks Program at the SWRCB.

With the highest concentration of metal platers being located in central Los Angeles, the FDC that provides the most service to that area, Pacific Coast Regional (PCR), has been very active in promoting the Loan Guarantee Program. PCR has promoted the program at a number of meetings, dinners, and expos of the Metal Finishing Association in southern California. PCR made oral presentations at these events to educate business owners and equipment vendors on the benefits of using the program. The following is a list of the events in which PCR participated over the past two years:

- September 13, 2006 - Metal plating finishers annual refresher training for hazardous waste generators in Commerce.
- January 18, 2007 - Presentation to Los Angeles County Sanitation District and DTSC regulators meeting.
- February 13, 2007 - Metal Finishing Association of Southern California Supplier Showcase held at Quiet Canyon in Montebello.
- February 14 and 16, 2007 - Certified Unified Program Agencies conference in Garden Grove.
- September 19, 2007 - Metal Finishers Association Compliance Assistance and Pollution Prevention Seminar at Elysian Park in Los Angeles.
- February 4-7, 2008 - Annual Certified Unified Program Agencies Conference in San Francisco.
- February 19, 2008 - Metal Finishing Association of Southern California Supplier Showcase at Quiet Canyon in Montebello.
- September 17, 2008 - Metal Finishers Association Compliance Assistance and Pollution Prevention Seminar at Elysian Park in Los Angeles.

PCR has also attended many chamber of commerce meetings, business expos, and seminars in the course of their normal business at which they have promoted the Loan Guarantee Program and distributed program materials, and have posted Loan Guarantee Program information on their website (<http://www.pcrcorp.org/finance/pcr5.htm>) which is visited by thousands of people looking for help with their business needs. PCR is willing to attend future meetings with any organization in the industry in an effort to generate interest in the program, and, as an incentive, have waived their documentation and loan guarantee processing fees for every member of the Metal Finishers Association as a promotion to entice them to apply to the Loan Guarantee Program and enroll in the Model Shop Program.

PCR did receive a referral from DTSC at the end of October for a metal plating company that enrolled in the Model Shop Program. Since the company is planning to relocate from Los Angeles to Fresno, PCR referred the prospect to Valley FDC in Fresno who will be the FDC to work with the client and a local lender to arrange equipment financing.

In addition to PCR's outreach and marketing efforts, the following activities also occurred:

- Information about the Loan Guarantee Program has been made available on the California Business Portal at <http://www.calbusiness.ca.gov/cedpgybmatalplating.asp>. As soon as this information was posted on the portal, BTH sent the link to the state's metal plating association for distribution to their members.
- Information about DTSC's Model Shop Program was made available at <http://www.dtsc.ca.gov/PollutionPrevention/MFMS/index.cfm>.
- The San Fernando Valley FDC announced the program in its June 2006 newsletter. The newsletter was sent to banks and business assistance organizations in the Los Angeles region.

- DTSC participated in a metal finishing supplier showcases in San Jose on November 16, 2006, and in Montebello on February 13, 2007. DTSC secured exhibit space and provided information about the Model Shop Program and the Loan Guarantee Program.

Model Shop Program

DTSC continues to implement the Model Shop program for metal platers throughout California. The Model Shop Program was established in southern California through a partnership between CalEPA (represented by DTSC); the City of Los Angeles, Bureau of Sanitation; the Metal Finishing Association of Southern California; the City of Burbank Public Works; the Orange County Sanitation District; and the Sanitation Districts of Los Angeles County. The program is designed to work with the metal plating industry to identify sources of pollution, develop alternative business practices, and provide compliance assistance to businesses in order to run cleaner and safer shops.

During the reporting period of calendar years 2007 and 2008, DTSC engaged in the following:

- Replicated the Model Shop Program in northern California and established partnerships with the City of San Jose Wastewater Program, City of Richmond Public Works Wastewater Program, Union City Sanitary District, the California Water Environmental Association, Manex (a non-profit Manufacturing Extension Partnership consultant), and the Metal Finishing Association of Northern California (formerly the Surface Technology Association).
- Received twelve Model Shop Program applications. Ten applications have been reviewed and nine businesses were accepted into the program. One business in northern California was not accepted because of a concurrent enforcement action taken by DTSC. The remaining two applications are currently going through the review process for acceptance into the program.
- Completed 15 site visits at these businesses to conduct pollution prevention assessments and to provide recommendations on ways to improve upon a shop's existing pollution prevention efforts.
- Held three compliance assistance and pollution prevention workshops for the metal plating industry during this period. Two workshops were held in southern California in September 2007 and 2008, and one in northern California in February 2008. The primary purpose of these workshops was to promote the Loan Guarantee Program as well as to provide the industry with beneficial information on environmental compliance in air, water and soil, industry specific pollution prevention strategies, energy and water conservation. Collectively, over 150 businesses attended the workshops.
- Attended four industry associations meetings, four industry supplier showcase events, the Industry Environmental Association Conference, thirteen local agency meetings, and presented at one Certified Unified Program Agency conference to implement and market both the Model Shop and Loan Guarantee Program.
- Expanded the DTSC internet website where businesses can access information on the Model Shop Program. The website also includes success stories, internet links to BTH, ARB, local agencies, industry association websites, financial assistance and incentive programs, on-line pollution prevention videos for metal platers in English and Spanish, and regulatory

environmental compliance references. The site is located at:
http://www.dtsc.ca.gov/PollutionPrevention/index.cfm#Metal_Finishing_Model_Shop_Program.

- Amended the interagency agreement with BTH in July 2008 to continue the northern California Model Shop Program.

In addition to the above activities, the following enforcement coordination activities were undertaken:

- Staff from the DTSC Enforcement Division participated in the above mentioned workshops and assisted in site visits at facilities.
- Model Shop staff coordinated on the development of regulations that apply to metal finishers treating aqueous waste containing cyanide.
 - Staff provided pollution prevention best management practices to include in the draft regulations. The regulations became effective in August 2008.
 - Staff contributed to the outreach effort to industry on the final regulations.

During the reporting period, DTSC worked to increase participation with the above mentioned activities and continued its efforts to expand the Model Shop Program with the various local agencies and environmental groups statewide. In October 2008, DTSC established a partnership with the newly formed Metal Finishing Association of San Diego. Staff worked with the industry association statewide to encourage their participation in the program. In late October 2008, a letter was sent to industry association board members to challenge their membership to show green business leadership in California and participate in the Model Shop Program. At this point, it is too early to see results from the challenge.

Program Expenditures

Since the Loan Guarantee Program's inception, BTH has provided \$200,000 to DTSC through an interagency agreement to cover costs associated with the northern California Model Shop. AB 1721 authorized \$200,000 for that purpose. BTH has expended approximately \$75,000 since July of 2006 to cover its Loan Guarantee Program related administrative costs. With regard to loan guarantees, no funds have yet to be paid to FDCs for completing loan guarantees, and no funds had been expended on defaulted loans.

Conclusion

While the Loan Guarantee Program portion of AB 721 has thus far been focused primarily on outreach and marketing, the Model Shop Program has worked directly with a number clients and is exhibiting effectiveness. With an October 2009 deadline looming for ARB's new hexavalent chromium regulation, interest in the financial assistance offered by the Loan Guarantee Program is expected to increase as metal platers begin focusing on the need to retrofit their facilities to comply with the new emissions rule.